

## Message Text

CONFIDENTIAL

PAGE 01 JIDDA 05157 211108Z

53

ACTION NEA-12

INFO OCT-01 ISO-00 PM-07 NSC-10 SPC-03 SS-20 RSC-01 L-03

AID-20 MC-02 EB-11 OMB-01 TRSE-00 PA-04 PRS-01 USIA-15

CIAE-00 INR-10 NSAE-00 DRC-01 /122 W

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R 211011Z NOV 73

FM AMEMBASSY JIDDA

TO SECSTATE WASHDC 5500

SECDEF WASHDC

INFO AMEMBASSY AMMAN

AMEMBASSY KUWAIT

DISTENGR RIYADH

DA/DCSLOG WASHDC

CDR USA MATL CMD ALEX VA

DA/COE WASHDC

DIVENGR LEGHORN ITALY

USCINCEUR VAIHINGEN GER

CHUSMTM DHAHRAN

DOD/DSAA WASHDC

C O N F I D E N T I A L JIDDA 5157

FROM AMBASSADOR AKINS FOR AMBASSADOR KOREN AND MR. NOYES

E.O. 11652: GDS

TAGS: MASS, SA

SUBJECT: UNRELIABLE FMS COST ESTIMATES

REF: DISTENGR RIYADH 33429 DTG 200757Z NOV 73 (NOTAL)

SUMMARY: THE REPEATED NEED TO REVISE UPWARD UNRELIABLE FMS COST ESTIMATES TROUBLES OUR RELATIONS WITH MINDEF SULTAN, AND IS RAISING DOUBTS ABOUT USG RELIABILITY AND EVEN OUR INTEGRITY. IT IS ESSENTIAL THAT SOMETHING BE DONE TO IMPROVE THE QUALITY OF COST ESTIMATES NOW BEING QUOTED ON FMS LETTERS OF OFFER. TO SAVE \$55 MILLION WORTH OF VEHICLE SALES NOW PENDING, BELIEVE SENIOR DOD OFFICIAL SHOULD COME TO SAUDI ARABIA TO  
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PAGE 02 JIDDA 05157 211108Z

EXPLAIN FACTORS INVOLVED IN REVISING PREVIOUS ESTIMATES. END

SUMMARY.

1. REFTEL REPORTS YET ANOTHER INSTANCE OF PROBLEM WHICH IS ASSUMING INCREASING PROPORTIONS FOR USG IN SAUDI ARABIA: UNRELIABILITY OF INITIAL COST ESTIMATES FOR FMS MATERIEL AND EQUIPMENT.

2. MOST SERIOUS EXAMPLE IS, OF COURSE, INCREASED COSTS ASSOCIATED WITH SAUDI NAVAL EXPANSION PROGRAM. ESTIMATED COSTS HAVE FAR SURPASSED ANY ORIGINAL SAG CONCEPTION OF MAGNITUDES INVOLVED AND I FEAR WILL GO HIGHER STILL BEFORE WE FINISH THIS PROGRAM.

3. IN SECOND CASE, WE WERE FACED IN JUNE, JULY AND AUGUST WITH NECESSITY OF EXPLAINING TO MINDEF SULTAN, AFTER HE HAD SIGNED RESPECTIVE SALES CASES, REASONS FOR 20-PERCENT INCREASE IN PRICES OF M-SERIES VEHICLES DESIRED BY SAG. THE SAG HAD ACTIVELY CONSIDERED NON-US SOURCES FOR THIS POTENTIAL \$52-MILLION VEHICLE PURCHASE, AND PRICE COMPETITIVENESS WAS A MAJOR FACTOR IN SAG'S FINAL DECISION. THOUGH SULTAN THREATENED TO CANCEL PURCHASE IN FACE OF UNEXPECTED PRICE INCREASES, EMBASSY AND CORPS OF ENGINEERS WERE ABLE TO CONVINCE SULTAN TO GO AHEAD WITH BULK OF PURCHASE (THOUGH HE HAS NOT YET SIGNED THE AMENDMENTS TO 2 1/2-TON SALES CASES UIM AND UIL, INCREASING ORIGINAL PRICES). OUR EXPLANATIONS TO SULTAN FOR UNFORESEEN PRICE INCREASES, WHICH DREW HEAVILY ON CREDIBILITY BUILT UP OVER LONG PERIOD OF CLOSE COOPERATION, WERE LESS INSTRUMENTAL IN SOOTHING SULTAN'S IRE THAN HIS REALIZATION OF BENEFITS TO SAA OF CONTINUING TO STANDARDIZE ON USA VEHICLES.

5. AMONG SOME SAUDIS, HOWEVER, THE PRESENT 35- TO 50-PERCENT INCREASES IN M-800 SERIES VEHICLE COSTS HAS CAST DOUBT NOT ONLY UPON OUR RELIABILITY AND CREDIBILITY BUT EVEN OUR INTEGRITY. THERE HAVE ALWAYS BEEN MODA OFFICERS NEAR SULTAN ANXIOUS FOR THEIR OWN REASONS TO TURN MODA AWAY FROM FMS SUPPLY CHANNEL. THEY NOW HAVE ADDITIONAL AMMUNITION FOR ANOTHER ROUND AND SULTAN, IN PRESENT MOOD, MAY BE MORE RECEPTIVE THAN EVER BEFORE. SULTAN MAY BEGIN TO WONDER IF USG IS NOT ENGAGED IN DELIVERATE SLEIGHT-OF-HAND DESIGNED TO REAP DISPROPORTIONATELY HIGH SHARE OF EQUIPMENT COSTS FROM OIL-RICH SAG.

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PAGE 03 JIDDA 05157 211108Z

5. IN PRESENT CASE, WE FEEL DOD SHOULD SEND TO SAUDI ARABIA TO BRIEF MINDEF SULTAN AN OFFICIAL THOROUGHLY FAMILIAR WITH THE PROBLEM OF COST ESTIMATES ON LETTERS OF OFFER, WITH FIRST-HAND KNOWLEDGE OF THE M-SERIES VEHICLE PROBLEM. AT STAKE IS A \$22-MILLION SALE OF M-800 VEHICLES. ALSO IN JEOPARDY IS THE \$33-MILLION SALE OF 2 1/2-TON M-SERIES VEHICLES (CASES UIL AND UIM), TO WHICH SULTAN STILL HOLDS THE UNSIGNED AMEND-

MENTS. THE VISIT ITSELF WOULD HAVE A MOLLIFYING EFFECT ON MODA OFFICERS AND PRINCE SULTAN; A CONVINCING PRESENTATION, MOREOVER, MIGHT SAVE THESE SALES AND ASSUAGE SULTAN'S DISPLEASURE.

6. IN THE LONG RUN, HOWEVER, IT IS ESSENTIAL THAT STEPS BE TAKEN TO IMPROVE THE QUALITY OF COST ESTIMATES NOW BEING QUOTED ON FMS LETTERS OF OFFER. USG OFFICIALS CAN ONLY CITE INCREASING LABOR AND MATERIAL COSTS SO MANY TIMES IN ATTEMPTING TO JUSTIFY PRICE INCREASES TO AN IRATE SAG MINISTER. I URGE THAT SENIOR DOD OFFICIALS TAKE A SERIOUS LOOK AT THIS PROBLEM AND TAKE WHATEVER STEPS ARE NECESSARY TO ENSURE THAT IN THE FUTURE WE ARE GIVEN FIRM, WELL-RESEARCHED COST ESTIMATES WHICH WE CAN CITE WITH CONFIDENCE.

7. FNALLY, ON COMPLEX, LONG-RANGE MILITARY DEVELOPMENT PROJECTS (SUCH AS THE SNEP OR THE F-4), WHERE RAPID COST ESCALATION SEEMS INEVITABLE, THESE HIGHER COSTS SHOULD BE ANTICIPATED IN AN INITIAL, RELATIVELY HIGHER ESTIMATE. IT IS EASIER TO RETURN A REFUND THAN TO REQUIRE THE MINISTER OF DEFENSE TO SEEK A SUPPLEMENTARY APPROPRIATION FROM THE COUNCIL OF MINISTERS.  
AKINS

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